Material Difference

How Branding Raises Assets

Investors used to have more money to allocate than funds to invest in. Now, investors are looking for reasons *not* to invest. The best paid jobs advertised at investment groups are for experienced due diligence professionals. A recent survey of seeders showed that less than 1% of funds presented to them got seed money. In 2010 there was less than $1bn allocated by seed investors across the globe. Investors are smarter and poorer than ever before and they've been burnt enough to be cautious.

You can no longer raise money simply because you have a serviced office in Mayfair and a company named by bastardising your surname or combining a colour and an inanimate object. Now you need to work at it. Unfortunately, even some of the best hedge fund companies are working at it the wrong way.

In this article we cover some of the traps that hedge funds fall into and some of the ways to get out.

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We don't need branding

You already have a brand, you're just not aware of it, or managing it

A brand is *all the experiences* people have when engaging with your organisation—be they positive or negative. This experience is both rational and emotional or to put it another way, tangible and intangible. These responses are the reason potential investors become investors and why investors stay invested.

As you communicate internally and externally you are creating rational and emotional responses. You are communicating the values and personality of your brand— irrespective of whether you have addressed them or not. You already have a brand, you're just not aware of it or managing it.

In this article we cover both rational and emotional reasons for investing and explain how to communicate the values and personality of your brand to help you raise assets.

Rational reasons for investing

Generally speaking, hedge fund groups try to address the rational reasons for investing because they are tangible and clear. Equally, these are the areas in which most hedge funds choose to differentiate themselves. Among the most common are performance, strategy, risk management, infrastructure, independent oversight etc. Without a doubt, these are very important factors in the management of the brand and without them the emotional response has little underpinning. (It has been argued that rational responses are purely *ex post facto* justifications of emotional responses.)

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Unfortunately, the majority of hedge fund groups do not even address the rational well. Figure 1. is a list of 'common differentiators' (what an oxymoron) which appear time and again in hedge fund presentations. None of these phrases express difference or even give rational reasons to invest. They are the minimum requirements for a hedge fund, highlighting that a fund *belongs* to a certain group rather than differing it from its peers.

Belonging to a group does not necessarily impact negatively on a brand, however, identifying your organisation solely as a member of a group is very damaging. Firstly, you have no control over the perception of the group (look at convertible arbitrage funds in 2005 and 2008—even if you'd made 10% in both years, as a convertible arbitrage fund, you weren't getting any investment). Secondly, identifying solely as a member of a group and then only appealing to rational reasons to invest will *never* work. Unless you can guarantee that your fund will be the best performing, most alpha generating, most intensely monitored and with the most robust infrastructure—forever—you will find it almost impossible to raise and retain assets.

Figure 1.
Unique selling points?

- Specialist investment team
- Proven track record
- Employs proactive risk management
- Seeks to harness market inefficiencies
- Aims to produce consistent, uncorrelated returns
- Employs integrated risk management
- Targets returns of X% regardless of market conditions
- Focuses on capital preservation
- Bottom up fundamental analysis with a top down overlay
- Focus on alpha generation
- The fund exploits mispricing opportunities
- Aims to produce strong consistent returns
- Robust infrastructure
- Highly skilled and experienced team
- Intense monitoring of risk
- Blue chip service providers
- Xxx worked for Goldman Sachs/ Merrill Lynch/Morgan Stanley etc

If only everything were rational

Investors will *always* give rational reasons for their investment, or lack of it because it's difficult to justify 'they just feel right'. So it makes sense that hedge fund groups focus on the rational reasons to invest while trying to market their funds. However, an anecdote from a hedge fund salesman illustrates the fallacy of the approach:

> The hedge fund salesman had two funds he was trying to sell simultaneously into the same investor group. One was a discretionary macro fund with high volatility but very high returns and a long pedigree, the other an event driven fund that was a wonderful work-horse fund churning out 0.5% to 2.0% a month. Macro and event driven were covered by different analysts at the investor group and eventually neither invested. The macro investor said the fund was too volatile and they were looking for something steadier. The event driven investor said the fund was too low octane and they were looking for something with more punch. They both worked for the same investment committee and on the same suite of investing funds. I am sure they both believed the reason when they gave it, it was just unfortunate they gave them to the same salesman within a matter of hours.

Investors will always give rational reasons for their investment, or lack of it

The investors were looking for a rational reason to back up their emotional response. This is not a comfortable conclusion for either party. The investor doesn't want to think of their reaction as emotional because it belies their years of study and wealth of experience. The hedge fund group doesn't want the reaction to be emotional because they think they can't control an intangible. Both parties collude to keep the rational reasons for investing at the forefront of the decision, so much so that emotional reasons are often cloaked with a patina of the rational.

Both parties collude to keep the rational reasons for investing at the forefront of the decision

The current fashionable rational investment decider is transparency—All transparency does is give the investor the emotional security to know that the funds are prepared to be open. It's an emotional reassurance both for the investor and the investor's investor (investors need branding as much as hedge funds).

Managing emotional responses

If you've ever worn a tie, you've been trying to affect someone's emotional response. No rational investor would invest because of a tie, so why bother wearing one? It's branding at it's most basic—professional people wear ties, I wear a tie, therefore I am a professional. Equally, it speaks on an emotional level; 'I take you seriously, so I have worn a tie' and 'take me seriously, I'm wearing a tie.' The wearing of a tie is a social convention that links you to a group, giving you an identity.

Almost all hedge fund groups want to identify themselves as 'professional.' In fact, any hedge fund group that has gone through a branding exercise in the last 10 years has described themselves with at least three of the words in figure 2. All these words are meant to express the organisations identity but actually they end up identifying the organisation as belonging to a group. Again, belonging to a group is not an entirely bad thing but hedge funds in particular have strived so hard to belong they've forgotten to differentiate.

This need to be professional is undoubtedly based on the feeling, ten years ago, that hedge funds were risky and full of money hungry mavericks. Most organisations wanted to distance themselves from that image as much as possible. They opted for the emotional equivalent of navy blue with an occasional flash of grey— a company identity expressed in a maximum of five one dimensional words that align it to a group of 'more professional' organisations. But being professional is again a *minimum requirement* for investment. Hedge fund groups are selling themselves very short if the only thing they appear to aspire to is professionalism.

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Professional	Integrity	Transparent	Entrepreneurial
Innovative	Insightful	Excellence	Collaborative
Independent	Unconstrained	Expert	Open
Flexible	Specialist	Diligent	Disciplined

Figure 2.
Brand identity

This is where we hit on the most important part of managing emotional responses through branding. Hedge fund groups tell investors who they are and what they are doing—which works well with the rational part of the investor. The emotional part of the investor reacts to what the hedge fund group *aspires to be*. It's the difference between Jungian 'private personality' and 'public and attributed personality'. The difference between who you are and the version of yourself you project externally and how others see you. (A successful hedge fund group actually has a section on their website called 'ambitions for the future'!)

Emotional buy-in means investment

The emotional part of an investor reacts to what the hedge fund group aspires to be.

The most successful asset gathering groups very rarely have the best performance, the most sophisticated systems or advanced risk management. What they do have is a strong brand personality. They have defined the organisations values, the stories they tell about themselves, their goals and aspirations and even the attitude of the company (warm, friendly, aloof, serious etc). They have given their employees a multi-dimensional expression of the company and the tools to be able to effectively communicate it to everyone they come into contact with. A consistent message with clear goals will win investment over performance time and time again.

There is a hedge fund manager who has been very successful at raising assets whilst only having one year of above average performance in a long career. As a result, he is constantly in update meetings with investors who want to redeem. Almost every investor leaves the meeting persuaded to stay, some even to add to their investment. The fund manager's secret is his ability to get the investor to buy into his future aspirations. He is humble whilst being fantastically assured. Every word or concept he uses relates to the future and his certainty of what will unfold. If the investor mentions the recent poor performance you see him crumble before your eyes. His apologies are profuse but within an instant he has moved on to how the experience has influenced his future plans. Instantly the investor is swept back into the amazing positivity of the fund managers forward thinking. He gathers up the investor in his vision and gets them to emotionally buy in to his future. In those circumstances it is very hard to redeem.

Your organisation needs a multi-dimensional personality with strong focus on future aspirations

At a conference back in 2003 Rainer-Marc Frey said the best piece of advice he could give anyone launching a fund was not to name the company after yourself. No investor felt they had got to the heart of the company unless they had met him. The brand personality of RMF was intrinsically linked to his personality and it meant he went to a lot of meetings just to be the brand ambassador. However, communicating the brand personality of RMF was much easier for the employees because they had all met the physical embodiment of the company and he was very good at communicating his aspirations and values. RMF was a very successful exercise in brand personality because Rainer himself had a strong vision, good stories, a warm personality and a willingness to communicate (even if it was quite tiring for him). It would seem that his new venture has much of the same attributes without being tied to him personally. The venture itself has a personality. To get emotional buy-in your organisation needs a multi-dimensional personality with strong focus on future aspirations.

Building a positive brand

If you only take away one message from this whole article make sure it is this one: The investor will treat your brand like your brand treats the investor. If your brand has no personality and no warmth the investor will treat it likewise - with no loyalty and high performance sensitivity.

1) Identifying groups— The shorthand signifiers that create the boundaries in which your brand's personality is going to shine. In fact, all the things this article has complained about. These are only the essential first steps to building the personality, not the basis for definition. For example, a person can be Catholic, male and a Conservative, it does not refer to their individual personality but gives reference points from which to point out uniqueness.

2) Hard/ rational benefits—Once you have the identifying groups of your brand you are able to work out rational benefits for your organisation/fund in relation to that landscape. You will not have a 'specialist investment team' you will have a team whose strengths are delineated against their peer group with specific benefits and talents clearly highlighted.

   The rational benefits of investing form the central core of your brand personality. However, make sure that these *really* are the benefits. If your 'specialist investment team' is average for the identifying group, don't try and turn it into a differentiator. Leave it out. Highlight only those things that are a rational benefit within the landscape. The other dimensions of your brand personality will take care of the base case for investment.

3) Values— It is important to identify the values that already exist in your organisation—be they positive or negative. It's worth going through your organisation and trying and work out the values of the individuals you admire within it and see if that fits the personality of your organisation (they're likely to, it's probably one of the reasons you hired them). Equally, you're going to have to look for the negative values present and see how they are expressed. You will either have to address the negative values and replace them with positive ones or find ways to minimise their impact because they *will* be transmitted to investors.

4) Stories— Telling stories about a brand is one of the strongest ways to express its personality and one of the easiest ways to communicate its aspirations and shape its public and perceived personality. (It's the same reasons we tell stories about ourselves). Currently, your brand probably has a confused personality because the stories that everyone tells about it are different.

   The stories need to be short and personal. You want them to be memorable and create an emotional connection with the investor. These are your brand stories, not the answers to a due diligence question. They are signifiers of your values and your company personality. You also need to disseminate them throughout your organisation.

5) Aspirations— You have obviously outlined your concrete aspirations in your business plan. These now need to be taken out of the sterile environment of a powerpoint and spreadsheet and given meaning in real life. Why does your company want to be successful? what does your company consider success? You may be surprised at how few people in your organisation know the answers to these questions and if they do, how different their answers are from yours. It's also important to make sure that all your aspirations are not solely concrete but also have emotional resonance— it's the difference between buying a house and making a home.

6) Core organising thought— The last step in the brand definition process and is normally the hardest. It is not your company's slogan it is how you describe your brand to colleagues and business partners—not necessarily an investor. For example Coca Cola's core organising thought is 'refreshing the mind, body and spirit' its slogan is 'the real thing'. Material Difference's core organising thought is 'change the face of hedge funds' but our slogan is 'delivering the right message to investors.' The core organising thought is the rally cry for your colleagues and the essence of what you are doing and plan to do.

7) Appearance — Once you have a beautifully well rounded brand personality, you can start expressing it in your organisations appearance. Yes, only now do we get to colours, logos and powerpoint templates. If all the steps above have been covered correctly, your brand will almost be able to choose them itself. If you haven't done it right, you'll probably be drawn to the old clichés of navy blue and grey with pictures of water, city landmarks or mountains. You are in trouble if you feel the need to have pictures of people looking at Bloombergs while someone leans over their shoulder pointing to something on the screen.

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Final thoughts

Our clients often think that a branding exercise is too much like navel gazing when they should be out there raising assets or trading their fund. If the exercise isn't done correctly, they're probably right. However, when it's done properly it allows a hedge fund to raise assets and trade *more effectively*. It streamlines communication internally and externally, cleans out unnecessary effort that creates negative or negligible impact while focusing effort in the right direction.

A strong brand personality that works on a rational and emotional level raises and retains assets. It's the reason the top consulting firms continue to get business (even though they often offer less at a higher price) and why nobody got fired for hiring IBM. Making the intangible tangible and controllable takes a great deal of the uncertainly from the selling process because it allows you to identify the real reason people are or aren't investing. A good brand personality saves you time and money.

Material Difference

We are an outsourced marketing firm with years of experience in hedge funds. We specialise in helping you raise assets through everything from branding to writing your newsletters. We provide specialist insight specific to hedge funds and all our input is practical and relevant.

We adapt to suit your organisation, bringing hassle free processes to create an efficient investor interface. We save you time. We remove the uncertainly by equipping you with a clear and coherent asset raising strategy.

If you'd like to discuss the article or are interested in our services please feel free to contact us:

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Lucy has raised in excess of $3.2bn and marketed almost every hedge fund strategy from Asian (ex japan) stat arb to European deep value credit. She's worked with start-ups and long established firms and throughout the entire fund lifecycle.

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Nisrin has worked with family offices and institutions on selecting and evaluating hedge funds, both single and multi-manager. She has also successfully promoted and raised capital for a number of complex hedge funds.